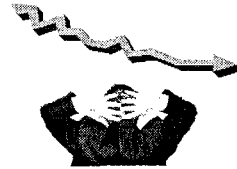


# The Importance of DB Plans in Our Communities

## Ohio Retired Teachers Association Board Meeting

November 12, 2009

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*Policy Analyst*



NATIONAL INSTITUTE ON  
Retirement Security  
Public Pensions • Social Security • Private Pensions • Retirement Solutions

## NIRS Mission

- Contribute to informed policy making by fostering a deep understanding of the value of retirement security to employees, employers, and the economy as a whole.
- Research, education, and outreach programs that are national in scope.



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## NIRS Membership

- NIRS has a diverse membership of organizations interested in retirement security
- Members include:
  - Employee benefit plans
  - State/local agencies that manage retirement plans
  - Trade associations
  - Financial services firms
  - Other retirement providers

## A Grim Outlook

- Private sector DB plan freezes increasing
- 401(k) matches decreasing
- Rapid deterioration of wealth for Americans
- Pension envy fueled by the media

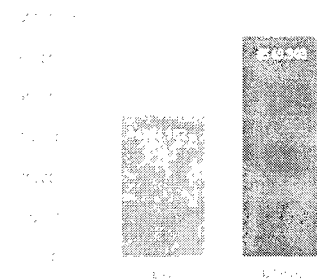
## The Good News

- Weakness of 401(k)-type accounts is obvious
- Group DB plans can better weather bear markets than individual plans
- Retirees are still getting their pension checks!

## But How? Guiding Principles...

- Speak for yourself or someone else will – and probably not on your terms.
- Facts & data make the case.
- Anecdotes, analogies are most memorable.
- Relationships matter.
- Be clear, credible and consistent.

Figure 2  
Per-Employee Annual Payouts of Top 42  
DB Plans, 2007



## What Do Taxpayers, Elected Officials Want to Know about Public Pensions?

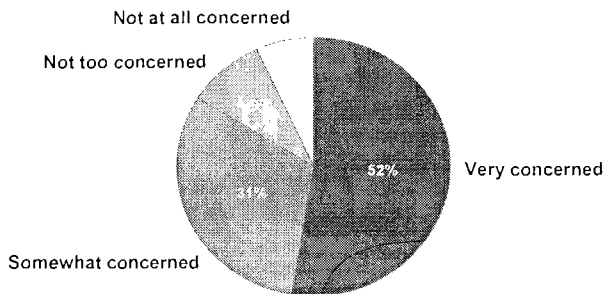
- ✓ Employees still want pensions, and they ensure self-sufficiency in retirement
- ✓ Pensions are cost effective
- ✓ Pensions have positive effects on the economy

## Public Opinion Findings

- **83%** of Americans concerned about ability to retire in current economic environment.
- Nearly **9 in 10** believe all workers should have a pension plan
- **55%** say a pension would ease their anxiety.
- Americans believe retirement is a shared responsibility between individual, government, employer.

## 8 of 10 Americans are concerned that current economic conditions will affect their ability to retire.

*How concerned are you about current economic conditions affecting your ability to achieve a secure retirement?*



"If I had not lost a lot of money the last few weeks, I would have had a secure retirement. I just hope that it comes back."

"A financially-secure retirement would mean that the money that I put away will actually be there for me when I do retire. The way the stock market is going, it's not there now."

"The market returning to over 10,000 would make my retirement much more secure."

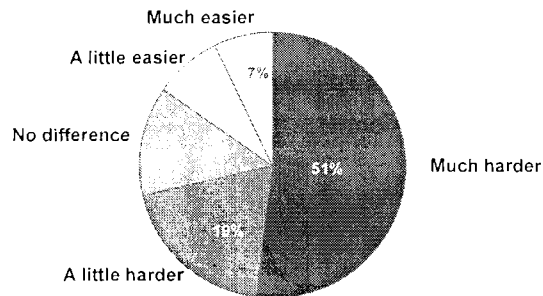


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## 71% of Americans believe it is harder today to prepare for retirement than for previous generations

*Do you feel that – compared to previous generations – it is easier or harder for people to prepare for retirement today, or is there no difference?*



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## Over 8 out of 10 feel government should make it easier for employers to offer pensions

To what extent do you agree or disagree with the following statements?

■ Strongly agree    □ Somewhat agree

The government should make it easier for employers to offer traditional pension plans.

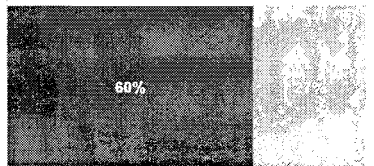


## 9 of 10 Americans believe that all workers should have access to a pension plan

To what extent do you agree or disagree with the following statement?

■ Strongly agree    □ Somewhat agree

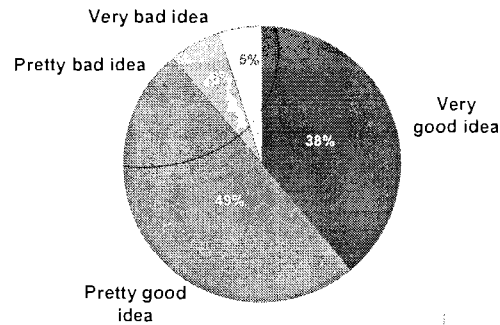
All workers should have access to a pension plan so they can be independent and self-reliant in retirement.



## 9 of 10 Americans favor government incentives to encourage small employers to band together to offer pension

*Some believe that the government should provide tax incentives or take other steps to encourage small employers to band together to offer a traditional pension program that small employers or individuals can join and invest in.*

*Do you think that this is a...?*



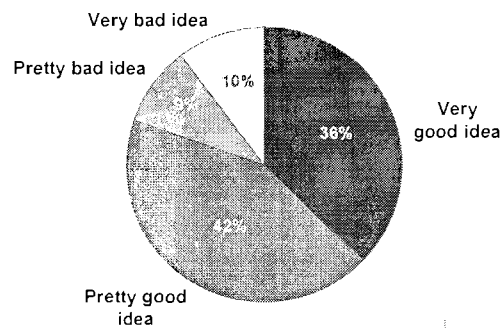
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## 8 of 10 Americans support government sponsorship of pension plans for small employers & individuals

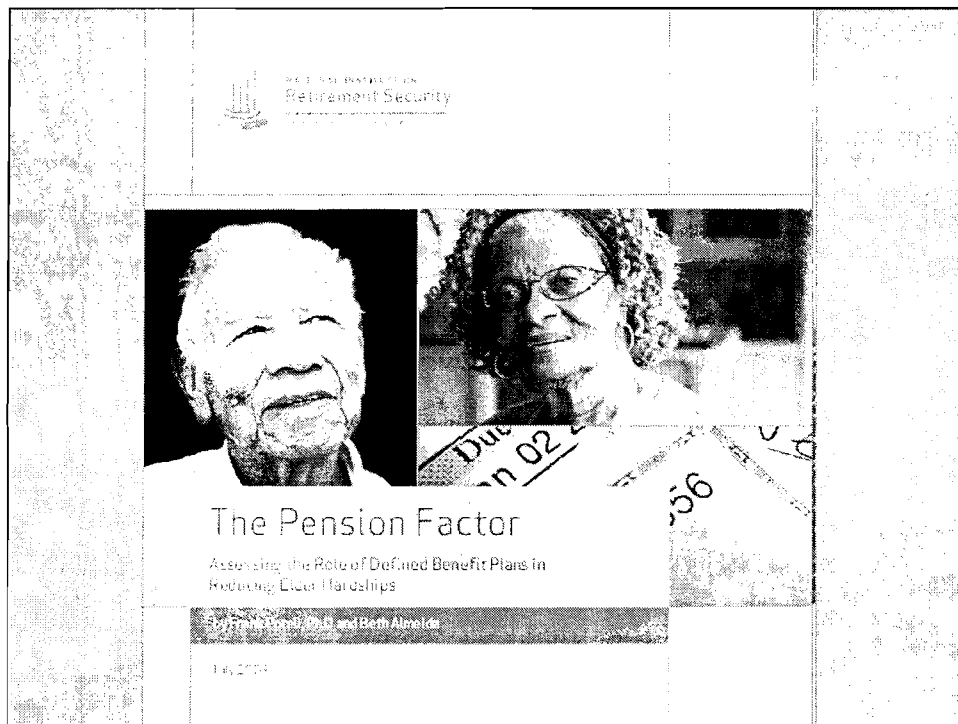
*Some believe that government should sponsor a traditional pension program that small employers or individuals can join and invest in.*

*Do you think that this is a...?*



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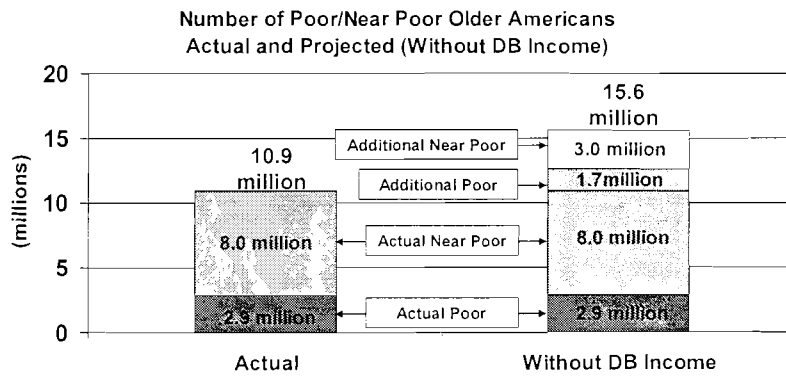
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## Why We Did This Study

- Examine contribution of defined benefit (DB) pensions to the economic well-being of older Americans
- How much does income from DB pensions protect older Americans from ...
  - Poverty
  - Material hardships
  - Reliance on public assistance

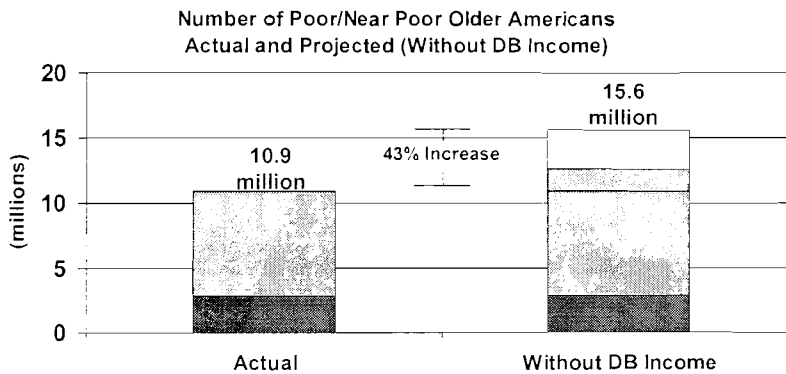
## DB Income Helps Large Numbers Avoid Being Poor, Near Poor



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Source: *The Pension Factor*, Table 7.

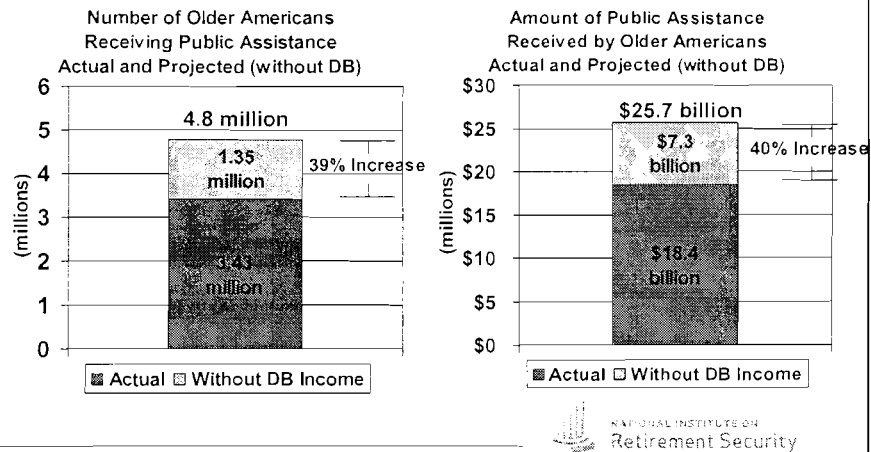
## DB Income Helps Large Numbers Avoid Being Poor, Near Poor



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Source: *The Pension Factor*, Table 7.

## DB Income Helps Large Numbers Avoid Public Assistance



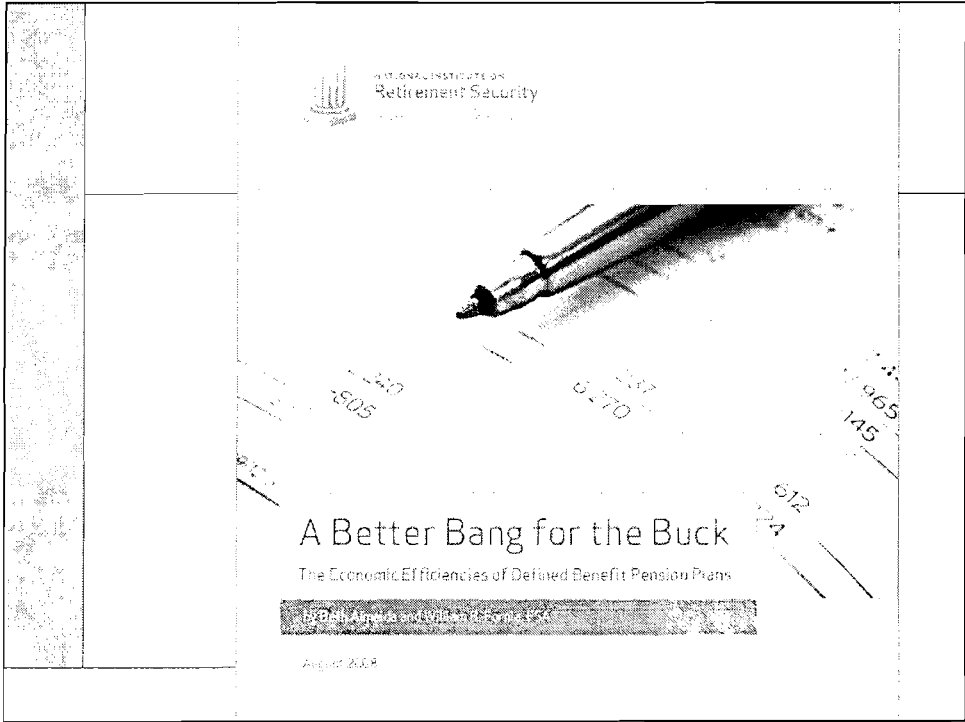
Source: *The Pension Factor*, Table 8.

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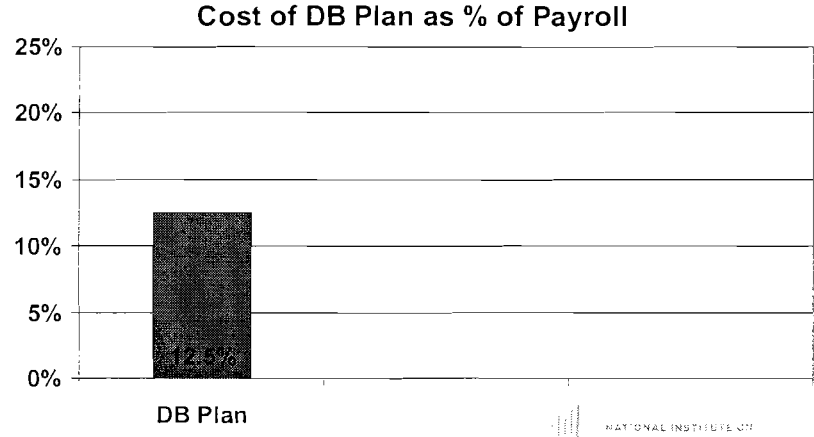
## Pension Factor Conclusions

- Income from DB pensions significantly contributes to the well-being of older Americans
- DB plans seem to especially reduce risks for vulnerable populations – women and minorities
- Elder poverty, material hardships and reliance on public assistance would be much greater in the absence of DB pension income

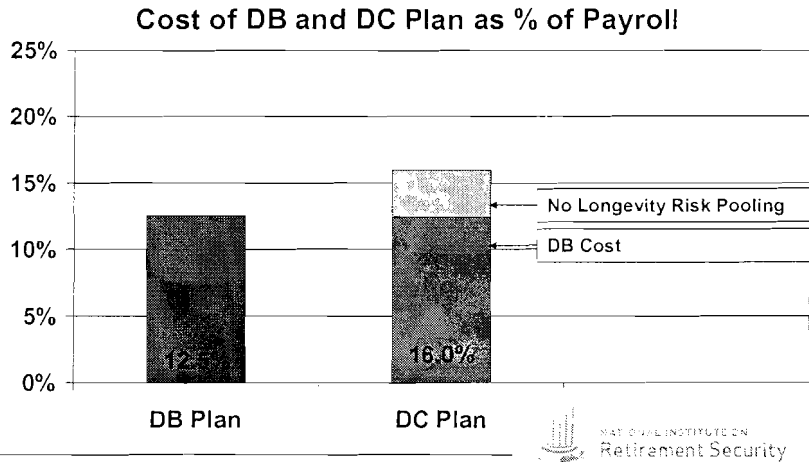
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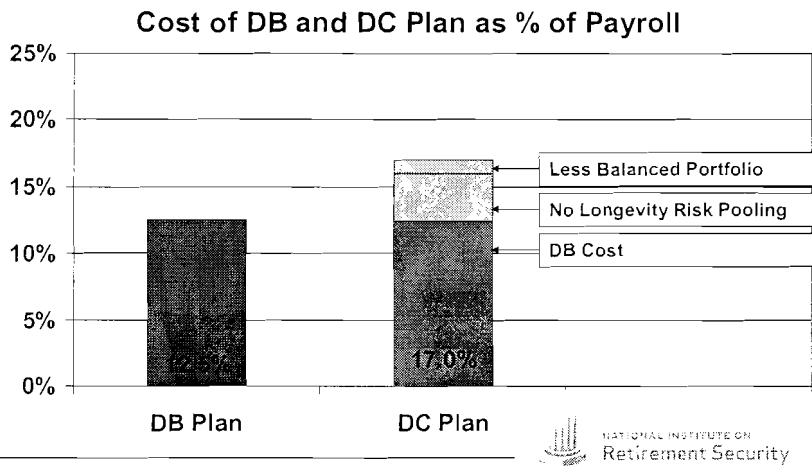
# Our DB Plan Costs 12.5% of Payroll



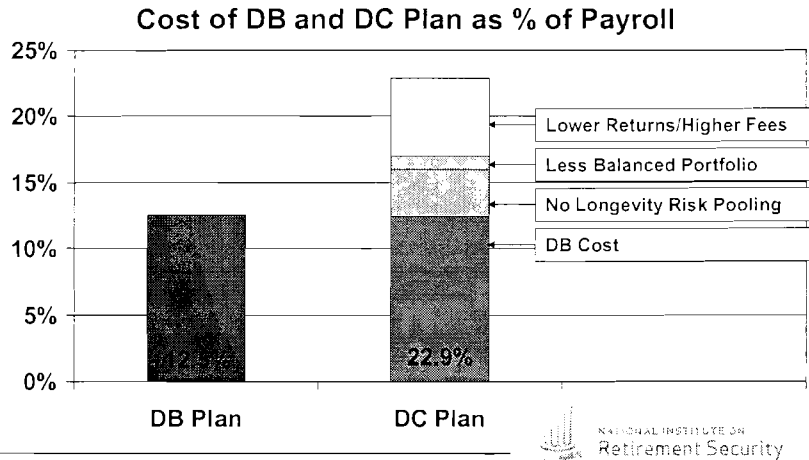
## Lack of Longevity Risk Pooling in DC Plans Adds Cost



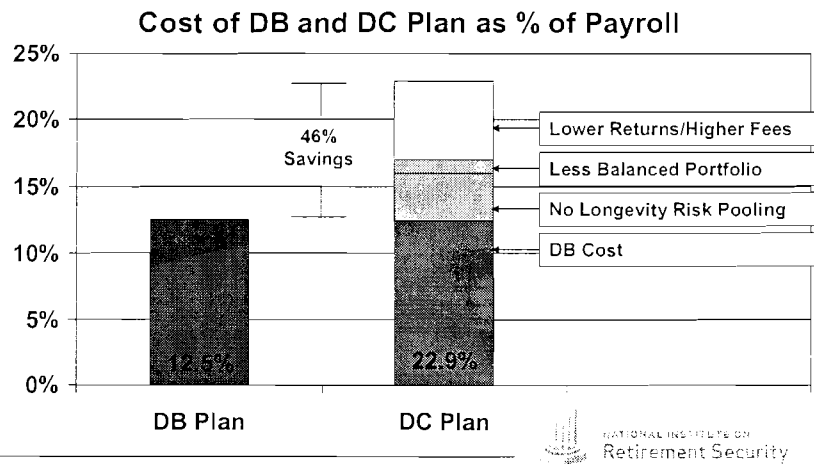
## Age-Based Portfolio Shift in DC Plans Adds Costs



## Lower Returns/Higher Fees in DC Plans Adds Cost

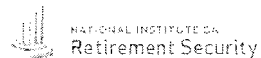


## DB Plan Can Deliver Same Benefit at About Half the Cost of DC Plan



## Bang for the Buck Conclusions

- DB plans have built-in economic efficiencies – provide a “better bang for the buck”
- These efficiencies drive significant cost savings for taxpayers and employers
- Decision makers should continue to carefully evaluate claims that “DC plans will save money”



## Why This Study

- Measure the “economic footprint” of state and local pension plans.
- DB plans act as an “automatic stabilizer” for the economy.
  - Even in tough times, retirees with a reliable pension can maintain spending on basic needs
- Get a sense of how much of a stabilizing effect state and local pensions may have on the U.S. economy.

## Results: Huge Economic Impacts

- In 2006, expenditures made out of state and local pension benefits supported...
  - **2.5 million jobs** that paid **\$92 billion** in income
  - **\$358 billion** in economic output nationwide
  - **\$57 billion** in federal, state, and local tax revenue

## Results: Pension Expenditure Multiplier

- What is the total economic impact of each dollar paid out in pension benefits?
- An expenditure multiplier measures the size of the “ripple effect” of retirees’ expenditures

Pension Expenditure Multiplier



## Results: Taxpayer Investment Factor

- What is the “return” on each dollar taxpayers “invest” in state/local pension plans?
- Because employee contributions and investment earnings finance most of the benefits, this factor is large...

Taxpayer Investment Factor



## Ohio Results

- In 2006, expenditures made out of state and local pension benefits supported...
  - **79,410 jobs** that paid **\$4.3 billion** in income
  - **\$11.2 billion** in economic output statewide
  - **\$1.7 billion** in federal, state and local tax revenue

... all within the state of Ohio

## Ohio Results

- For each \$1 paid out in benefits, **\$1.33 in total economic activity** was supported.
- For every dollar contributed by taxpayers, **\$5.73 in economic activity** was supported

... all within the state of Ohio

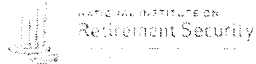
## Pensionomics Conclusions

- State and local pensions provide a critical source of reliable income for **7.3 million retired Americans**.
- They support **2.5 million American jobs and \$358 billion** in national economic activity.
- Pensions are “automatic stabilizers” – retirees can continue to spend on basic needs, providing important stimulus during these tough times.

## Making the Case for Pensions

- ✓ Pensions are doing their job—ensuring that middle-class Americans stay middle-class
- ✓ Pensions provide a “better bang” for each taxpayer buck
- ✓ Pensions have ripple effects that support jobs, help stabilize economy

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Public and private retirement funds represent a cooperative source of capital in the United States. Financial markets in 2007, retirement plans hold close to \$6 trillion in assets.



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1/25/08 10:00 AM

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## Questions, Comments & Contact Info

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